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TO: Jeffrey Rohrs, Chief Information Officer
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FROM: Hector Collazo Jr., Inspector General/Chief Audit Executive
Division of Inspector General

DIST: Ken Burke, CPA, Clerk of the Circuit Court and Comptroller
Claretha Harris, Chief Deputy Director, Finance Division
Jeanette Phillips, Director, Finance Division

SUBJECT: Inspector General's Observation of the Business Technology Services' 2017 Annual Physical Inventory of Telecommunications Fixed Assets

DATE: May 8, 2018

This letter serves to inform you that the Division of Inspector General completed its observation of the 2017 annual physical inventory of Telecommunications fixed assets for Business Technology Services (BTS) on March 30, 2018.

Our objectives were to:

1. Interview and observe staff conducting the department's physical inventory to determine compliance with required inventory procedures.
2. Test and verify, on a sample basis, the assets recorded by staff.

Additionally, a citizen contacted the Division of Inspector General (IG) regarding the number and cost of inventory that was recorded as Unaccounted For Property (UA) in the 2016 annual physical inventory for BTS. The 2016 annual physical inventory for BTS indicated there were 166 items identified as UA and two items identified as stolen/destroyed. Based on the citizen contacting the IG, the audit included a more thorough review of the current and historical inventory to determine if any of the assets identified as UA in 2016 were found during the 2017 inventory and if the volume of UA was increasing.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector Genera*l, and accordingly, included such tests of records and other auditing procedures as we considered necessary in the circumstances.

BTS is the central information technology service provider to Pinellas County Government and provides shared enterprise scale technologies to support core business functions. One example of the information technology services provided by BTS is telecommunications. Telecommunications is the suite of technologies, devices, equipment, facilities, networks, and applications that support communication at a distance. It is the transmission of signals, signs, writings, words, messages, sounds, and images through radio, wire, optics, or other types of electromagnetic systems. It is what happens when there is an exchange of information between participants with the help of technology. These telecommunication networks are vast, integrated systems that serve a critical role in the daily operation of government.

In order for Pinellas County Government to serve the citizens within all areas of the County, it was essential to create an extensive telecommunication network that blankets the surface area and supports the dense population. Pinellas County is a 280 square mile peninsula bordered by the Gulf of Mexico and Tampa Bay. The County from tip to tip is 38 miles long and 15 miles wide at its broadest point. The U.S. Census Bureau has estimated a total resident population of 960,730 for Pinellas County in the 2016 Population Estimates. Unlike the majority of Pinellas County departments, and as a result of having the need for such an extensive network, the fixed assets for BTS are scattered throughout the 280 square miles of the County.

Our first objective was to determine compliance with required inventory procedures and to test a sample of the assets recorded by the staff. The audit did not include observing the staff conduct the entire inventory for BTS, but included the observation of how the inventory taker conducted the actual process on multiple occasions and at multiple locations. In addition to the observation, sample testing of the inventory was performed using a floor to book method rather than book to floor. The floor to book method compares items found on site to the inventory records. The book to floor method compares items listed in the inventory to those found on site. The floor to book method was used because the fixed asset inventory report does not have the ability to filter or sort assets by specific location from which a specific sample could be extracted to use for the book to floor method.

We conclude the staff is conducting the annual physical inventory in compliance with the required inventory procedures and our sample testing reconciled.

Our second objective was to determine if any of the UA identified in 2016 were found during the 2017 inventory and to determine if the volume of UA was increasing or decreasing. We reviewed the inventory data for the years 2013 - 2017 (see Table 1). For this timeframe, there was an average of 1,907 items in inventory, valued at an average cost of $17,123,824.91, and an average of 185 items listed as UA.

Inventory Year	Inventory Count	Inventory Actual Cost	UA	UA Depreciated Value
2013	1,931	$19,826,120.29	512	Record incomplete
2014	1,782	$16,709,392.01	100	$14,313.73
2015	1,958	$16,761,579.90	3	$1,624.52
2016	1,980	$16,541,824.08	166	$35,668.86
2017	1,886	$15,780,298.26	146	$20,373.75
Average	**1,907**	**$17,123,842.91**	**185**	**$17,995.22**

Table 1 – BTS Inventory Data 2013-2017

With regard to Table 1, there are some questions regarding the accuracy of the inventory data reported for 2015:

- The inventory taker noted only three UA for 2015, which is significantly less than the normal number of UA reported annually.
- The submitted 2015 inventory documentation is incomplete; the records do not contain the appropriate tick marks nor a notation regarding the condition of the item to denote the items were physically seen and evaluated during the inventory process.
- 51 of the items listed as UA in 2014 were also determined to be UA in 2016.
- Discord existed between the inventory taker and other staff, which potentially impacted the records.
- The 2016 inventory was conducted by a new inventory taker with minimal transfer of knowledge due to the abrupt retirement of the former inventory taker in 2016.

To determine if any of the 166 UA from 2016 were found during the 2017 inventory, we manually searched the 2017 records to determine if they were found or remained UA.

With regard to the review of the 166 UA noted in 2016:

- 60 were located during the 2017 inventory
- 7 were sent to surplus prior to conducting the 2017 inventory
- 99 remained UA after conducting the 2017 inventory
- 51 of the 99 UA were reported as UA in 2014
- The depreciated value of the 166 items was $35,668.86

With regard to the review of the 146 UA noted in 2017:

- 99 were identified as UA in 2016 and held a depreciated value of $662.25
- 47 were newly identified as UA and held a depreciated value of $19,711.50
- The depreciated value of the 146 items was $20,373.75

To determine if the quantity of UA was increasing, we reviewed the inventory data for the years 2013 - 2017. There is significant fluctuation in the number of UA reported from one year to the

next. The annual average was 185 UA for the reviewed timeframe. The 2016 and 2017 UA were lower than this average of 166 and 146 respectively. However, the average is skewed due to the influence of the outliers present in 2013 and 2015.

To determine if the quantity of UA is increasing, it was essential to establish how many items were actually newly identified as UA in 2016 and 2017 (see Table 2). To do so, we reduced the UA listed in the inventory year by the number of those identified as UA in previous years. This established how many UA are being newly identified in the inventory cycle. Since the accuracy of the 2015 inventory came to question, we did not use the data from that year. Instead, we compared the 2014 UA list to the 2016 UA. We concluded there were 115 newly identified UA for 2016 and 47 for 2017.

Inventory Year	Inventory Count	UA	Percent of Inventory Listed UA	Listed UA Previous Inventory	Newly Identified UA
2016	1,980	166	8.4%	51	115
2017	1,886	146	7.7%	99	47

Table 2 - BTS UA Inventory 2016-2017

The quantity of UA for BTS has decreased as a result of the enhanced inventory processes BTS implemented. However, the quantity of UA continues to be more than expected. The quantity of UA could be a result from devices being moved, returned, or repurposed without notifying the record keeper. To address this issue, BTS implemented an enhanced inventory process, including the implementation of a robust system management tool, communicated the importance of asset management with the technical teams, and began conducting periodic inventories throughout the year on all fixed assets. Additionally, BTS has taken steps to include the record keeper in the communication processes involving purchases, returns, and fixed asset retirements in order to mitigate the quantity of UA within the inventory.

The overall conclusions are as follows:

- We conclude the staff is conducting the annual physical inventory in compliance with the required inventory procedures, and our sample testing reconciled.
- We conclude 67 of 2016 UA were located either before or during the 2017 inventory cycle.
- We conclude the quantity of UA for BTS has decreased, but there is room for improvement.

We appreciate the department implementing some strategies to mitigate the quantity of UA. The Division of Inspector General will conduct reviews of future annual physical inventory records to monitor the impact of the enhanced inventory processes.

We appreciate the cooperation of the BTS staff during this audit.